

**THE
DUKE OF YORK'S
ROYAL MILITARY SCHOOL**



**ANNUAL REPORT
AND ACCOUNTS 2006/07**

THE DUKE OF YORK'S ROYAL MILITARY SCHOOL



ANNUAL REPORT AND ACCOUNTS 2006/07

**Presented to the House of Commons pursuant to section 7
of the Government Resources and Accounts Act 2000**

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ANNUAL REPORT

by Mr J A Cummings BA (Hons) MA

Headmaster and Chief Executive

The Duke of York's Royal Military School

This annual report covers the period 1 April 2006 to 31 March 2007.

The School has continued to maintain its high standards during 2006-07. This can again be seen in our excellent public examination results and in the high quality of our pastoral care. The Agency has continued to operate costs effectively and sustain its pupil population. We have achieved 4 of our 5 revised key targets, and partially achieved the other, which are more realistic and taut.

The school's continuing success is also reflected in its increased popularity. Once again the number of pupil applications has exceeded the availability of places.

I conclude therefore that 2006-07 has been yet another highly successful year for the School.



20 June 2007

J A CUMMINGS

HER MAJESTY'S COMMISSIONERS

Chairman

Major-General A L Meier CB OBE

Ex Officio

The Chaplain General

Specially Appointed

Air Vice-Marshal M R Jackson CB FRAeS
Rear Admiral J A Trewby CB MA CEng FIEE
Major-General R W M McAfee CB
Major-General D Farrar-Hockley CBE MC

Appointed

Mrs R McCarthy BA
Professor M Wright LL.M CCIPD CFim FRSA
Mr R A Perrin MA
Brigadier M A Nugent CBE
Brigadier D Ralls CBE DFC DL
Dr M Guzkowska
Miss C Cawston (appointed Jan 07)
Dr G Soar (appointed Jan 07)

Co-opted

Dr L Naylor
Dr I C Craig

THE SCHOOL

The Duke of York's Royal Military School is situated near Dover. It is an independent boarding school for the sons and daughters of Service personnel. Pupils are 11 to 18 years old and entrance to the school is subject to entrance tests and a good Headteacher's report. Special consideration is given to applicants who are compassionate cases as defined by the governing body, Her Majesty's Board of Commissioners.

Education for 11 to 16 year olds adheres to the National Curriculum leading to Key Stage 4 assessment mainly through GCSE. The sixth form curriculum is consistent with good educational practice, comprising AS/A2 level and vocational courses. The school has distinctive Christian and military traditions and has sound European links.

As an Agency of the Ministry of Defence the school operates within the scope of its Royal Warrant of July 1992 and its Framework Document which was revised and republished in 1999.

AIM

The school aim in the Corporate Plan 2006-2011 is:

To provide cost effectively for all pupils, a high standard of secondary education and a full range of extra curricular sports and activities within a stable, caring, boarding environment.

MISSION STATEMENT

The School's Mission Statement is:

Our purpose is to promote the full development of all pupils, by providing a secure, professional and caring learning environment in which each pupil is encouraged to reach his or her individual potential and is prepared for the opportunities, responsibilities and experiences of adulthood. These goals are to be achieved in the context of a spiritual, moral and pastoral ethos, which respects the values of Christian and other faith communities, and our unique military tradition.

CORE ACTIVITIES

Five core activities were identified in the Corporate Plan 2006-2011. These were:

- a. *Curriculum.* In accordance with the National Curriculum, to promote the spiritual, moral, cultural, mental and physical development of all pupils. To encourage their self-esteem, help them reach their individual academic potential and prepare them for the opportunities, responsibilities and experiences of adulthood within the context of a broad and balanced curriculum and the pursuit of academic excellence. In particular to provide the opportunities for pupils to acquire the knowledge, skills and attitudes which will enable them to proceed to university or other institutions of higher education, or to enter directly into the Armed Services, professions, commerce or industry.
- b. *Pastoral.* Within a Christian context to provide a stable and caring boarding school environment in accordance with the Children Act 1989. To act in loco parentis whilst pupils are in school and to care for their physical, spiritual and moral well-being. In partnership with parents to promote self discipline and self respect, a responsible attitude towards work and a caring attitude towards others. To promote a respect for property and encourage traits such as honesty, responsibility and co-operation. To provide a range of extra-curricular sports and activities for relaxation and enjoyment and in order to help develop character and social skills, to foster a sense of team spirit and to prepare pupils to manage their leisure time constructively. To attend to the particular needs of service children.
- c. *Finance and Administration.* To ensure curriculum, pastoral and administrative support requirements are delivered cost effectively. To improve the effectiveness and efficiency of systems for controlling financial and budgetary matters. To reduce progressively the overall pupil per capita costs of the school by implementing the financial and efficiency plans which aim to reduce costs, generate greater income and increase pupil population to the optimum.
- d. *Staff Development.* The school is committed to developing and supporting its staff. It first gained Investor in People (IIP) status in December 1998 and was successfully re-accredited in January 2004. Performance Management is in place for all staff and a customised performance management scheme has been introduced for all teaching staff in order to manage specific training and development needs more efficiently and effectively.
- e. *School Government, Marketing and Special Projects.* To ensure the school is governed in accordance with the Framework Document; to market effectively; and to review whole school needs and implement findings as appropriate in order to enhance schooling and improve overall provision.

KEY TARGETS 2006/7

1. To achieve an average points score of 498 at GCSE.
2. To achieve 5 or more GCSE passes at grades A* to C for 94% of candidates.
3. To achieve an average points score of 290 at GCE.
4. To achieve an average points score per A2 examination entry of 59 at GCE.
5. To generate income from the hiring of facilities only of £14,000 per year and to provide community support to 8 local events per year. This is a continuing revised target

Academic key targets are set using national comparatives with examination results weighted to reflect DfES guidance. Financial and community support targets are as directed by AG.

SCHOOL DEVELOPMENT

Over the fifteen years as an Agency of the Ministry of Defence (MOD), the school has become Tri-Service and co-educational, curriculum provision at all stages has been reviewed and modified, examination results have been sustained at a high level within realistic key targets and applications for places continue to rise. The School has introduced Resource Accounting and Budgeting (RAB) and become more cost effective.

The main advantages since the granting of Agency status are:-

1. Key Targets. School performance has been enhanced through the setting of key targets both academic and financial and evaluation of achievement. Key Targets, which are stretching and measurable, are reviewed annually. The academic targets are set against national comparatives.
2. Corporate and Management Plans. This annual document details management objectives and focuses on Senior Management responsibilities. The Corporate Plan allows the school to detail a rolling five-year programme which links current objectives to strategic vision. The Management Plan defines the in-year tasks and objectives which are designed to assist the school achieve its longer-term aims.
3. Limited Financial Autonomy. The Chief Executive has been granted delegated powers through the Agency Framework Document, although beneficial in some areas they are limited in others.
4. Corporate Governance. The School is governed by a Board of Commissioners who act on behalf of our owner, the Adjutant General (AG). Two sub-committees were established in 1992 which have staff representation. They are the Finance and General Purposes sub-committee and the Pastoral and Curriculum sub-committee which meet each term.
5. Achievements. The School has made substantial progress since it was launched as an Agency in April 1992 and aims to offer a first class full and wide boarding education. Per capita pupil costs are competitive, academic performance has improved and several major new initiatives have been implemented, most notably the move to a new co-educational environment.

The school gains support from the MOD enabling it to be accountable and efficient and to play a small but significant role in retention. It benefits from a wide range of training opportunities for teaching and support staff and from best practice. IIP status has been achieved and re-accredited.

Agency status has been a success and the school is providing well for the educational needs of its pupils and in particular providing the security and stability needed for services children.

PERSONNEL MATTERS

Recruitment of Staff

Recruitment into the Duke of York's Royal Military School is governed by the Civil Service Order in Council and is in accordance with the Civil Service Commissioner's Recruitment Code. The Agency Framework Document delegates authority to the Board in the recruitment of all staff, with the exception of the Headmaster and the Bursar. In accordance with the Civil Service Commissioner's Recruitment Code every individual appointed to a post in the school is selected on merit on the basis of fair and open competition, apart from the exceptional cases in Article 6 and 7 of the Order, regardless of race, gender or (subject to the requirements of the job) disability. Systems are in place for the internal audit of recruitment practices at the school, in addition to AG and Civil Service Commission Compliance Audits.

Staff Development

The Duke of York's Royal Military School is committed to the development of its staff. The school's Development Plan and associated training needs are regularly reviewed and a wide range of training opportunities are made available for both teaching and support staff. Performance Management for teaching staff introduced in 2001 embraces both curriculum and pastoral roles within the school. The Civil Service Performance Assessment and Development Report scheme operates for all staff. The school was recognised as an Investor in People in 1998, and was re-accredited in January 2004 when it was confirmed that the school has successfully retained its IIP status, and continues to be recognised as an Investor in People.

Staff Pay and Conditions of Service

The March 1994 Teachers Pay and Conditions Review remains extant for all teaching staff. The Chief Executive reviews teaching staff salaries annually, and as required. Upper Spine Point 3 progression was introduced for entitled teachers in September 2004 and Teaching and Learning Responsibility Payments [TLRs] introduced from January 2006 replacing Management Allowances. Support staff pay and conditions of service are in accordance with Civil Service directives. Personal Job Descriptions are held by all staff and reviewed and updated as appropriate.

Equal Opportunities

An equal opportunities policy is contained in the School Handbook, Staff Induction Handbook and DOYRMS Recruitment Guide. Equality and Diversity training is mandatory for all staff.

Remuneration Report

This section has been subject to audit.

Senior Staff Pay and Allowances

The salary and pension entitlements of the most senior members of the Duke of York's Royal Military School are disclosed in the following table:

Name	Age	Salary, including performance pay £000	Benefits in kind (rounded to the nearest £100)	Real increase in pension and related lump sum at age 60 £000	Total accrued pension at age 60 at 31/03/07 and related lump sum £000	CETV at 31/03/06 (nearest £000)	CETV at 31/03/07 (nearest £000)	Real increase in CETV after adjustment for changes in market investment factors £000
J A Cummings Headmaster	58	70-75 (70-75)	Nil	0-2.5 plus 2.5-5 lump sum	25-30 plus 80-90 lump sum	458	489	30
T R Porter Deputy Head	64	60-65 (60-65)	Nil	N/A (Already 60)	20-25 plus 60-75 lump sum	N/A	N/A	N/A
R Say Bursar	60	65-70 (60-65)	Nil	N/A (60 during Year)	5-10 plus 15-20 lump sum	146	N/A	N/A
J H English Director of Studies	51	60-65 (60-55)	Nil	2.5-5 plus 7.5-10 lump sum	20-25 plus 60-65 lump sum	285	300	15
B Birchley Senior Teacher	52	55-60 (50-55)	Nil	0.25 plus 5-7.5 lump sum	15-20 plus 50-55 lump sum	246	259	12

Note: Mr A Bisby was long term sick and did not participate in school management

Prior year salary figures are shown in brackets.

All Senior Staff, with the exception of the Chief Executive and Bursar, are paid on the DfES Leadership Scale. Salaries and pensions are not time apportioned for part years. No Senior Staff, except the Chief Executive and the Bursar, are subject to performance criteria. The Chief Executive's bonus is paid centrally on assessment and achievement of key targets.

Unless otherwise stated the officials covered by this report hold appointments which are open-ended until they reach the normal civil service retiring age of 65. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

The Board of Commissioners comprised 9 Departmental and 7 external members, none of whom were full time employees of the establishment. The external members were paid only travelling expenses. The Departmental members received no emoluments from the school.

Pension Costs

The Principal Civil Service Pension Scheme (PCSPS), Teachers Pension Scheme (TPS) and the National Health Service Pension Scheme (NHSPS) are unfunded multi-employer defined benefit schemes but Ministry of Defence is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 for the PCSPS, 31 March 2001 for the TPS and at 31 March 2003 for the NHSPS. Details can be found in the resource accounts of these schemes which are published and laid before the House of Commons. Two of these are also available on the web at www.civilservice-pensions.gov.uk and www.nhs.gov.uk.

For 2006-07, employers' contributions of £440k were payable (2005-06 £420k). The applicable rates for the respective pension schemes are shown below:

<u>Scheme</u>	<u>Class of member</u>	<u>2006/07</u>	
PCSPS	Non-industrial and Industrial Civilians	Gross Salary	Rate %
		60,501 and over	25.5
		35,001 – 60,500	23.2
		17,001 – 35,000	19.5
TPS	Teaching Staff	Up to 17,000	17.1
		1 Apr – 31 Dec	13.5
		1 Jan – 31 Mar	14.1
NHSPS	Medical Staff		14.0

The contribution rates reflect benefits as they are accrued, not when costs are actually incurred, and reflect past experience of the scheme.

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions for the PCPS are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum, equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

The increase in CETV is effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement and uses common market valuation factors for the start and end of the period.

A Case Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2004-05 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrues to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

A handwritten signature in black ink, appearing to read 'J A Cummings', with a stylized flourish at the end.

J A Cummings
Headmaster and Chief Executive
20 June 2007

MANAGEMENT COMMENTARY

Introduction

This assessment of performance does not seek to examine the comprehensive range of school activities which are covered in other school documentation, such as the termly newsletters to parents, school magazine and Headmaster's end of year report. Rather it concentrates on the key targets identified in the Management Plan for 2006-07, highlighting the more significant achievements.

Summary

This has been another highly successful year for the school as an Agency of the Ministry of Defence. Once again we have surpassed our target for pupil applications, thus demonstrating the increasing popularity of the school amongst our customers. This has led to further improvements in the quality as well as in the numbers of new entrants and represents an excellent investment for the future. In September 2005 the school entered its twelfth school year of co-education and the number of female pupils continues to rise.

The school runs its cash budget increasingly cost effectively. We continue to struggle against non-cash costs over which the school has very limited control. The school has not achieved its pupil per capita target and income generation has increased.

In this its fifteenth, and last, year as an Agency of the Ministry of Defence, the school has achieved 4 of its 5 key targets. Individual key targets are addressed below.

1. To achieve an average points score of 498 at GCSE.
The average points score achieved was 509.83.
The target was therefore achieved.
2. To achieve 5 or more GCSE passes at grade A* to C by 94% of candidates.
95.06% of GCSE candidates achieved 5 or more passes at grades A* to C.
The target was therefore achieved.
3. To achieve an average points score of 290 at GCE.
The average points score was 307.53.
The target was therefore achieved.
4. To achieve an average points score per A2 examination entry of 59 at GCE.
The average points score was 83.23.
The target was therefore achieved.
5. To generate income from the hiring of facilities only of £14,000 per year and to provide community support to 8 local events per year.

Income generated during Financial Year 2006/07 was £7,873 and the school supported 8 community events. The target was therefore partially achieved.

The School remains generally well funded. The main financial issues are still concerned with lack of investment in infrastructure, a revised no longer serving fee structure from 2007, funding of the maintenance of the estate subsequent to the introduction of Prime Contracting and inclusion in a new Kent Super Multi Activity Contract.

THE FUTURE

A new Corporate and Management Plan was issued in November 2006. The overall aim in the Corporate Plan is:

‘To provide cost effectively for all pupils, a high standard of secondary education and a full range of extra-curricular sports and activities within a stable, caring, boarding environment’.

The new Corporate Plan reveals the broad areas requiring further development. The targets in the Management Plan are instrumental in this development and take the school forward realistically as a school and an Agency. Individual members of staff are nominated to achieve specific targets and each target has been given a performance indicator.

The core activities are: curriculum; pastoral; finance and administration; and school government, marketing and special projects. Members of the senior management team and school middle managers have contributed to the plan in their respective areas. Those staff who have specific tasks in the Management Plan are consulted individually and targets have been set at Department and House level with all staff being involved in some capacity.

An Upper 6th Form Boarding House planned to open in 2004 at a cost of £2.3 million, followed by a refurbishment programme to upgrade all boarding houses was cancelled due to withdrawal of funding, although a small amount of cosmetic health and safety work has been achieved. As the standard of boarding accommodation continues to deteriorate, observed on by the Commission for Social Care Standards Inspection (CSCI) Team and Secretary of State for Defence, investment will become more critical and potential parents more discerning. This has been recognised by the MOD and steps are in place to support the funding of a modernisation programme.

The in-year key targets for 2007-08 are:

1. To achieve an average capped points score of 550 at GCSE.
2. To achieve 5 or more GCSE passes at grades A* to C, including English language and mathematics, for 84% of candidates of year 11.
3. To achieve an average value added score for year 11 pupils of +0.25.
4. To achieve an average points score of 290 at GCE.
5. To achieve an average points score per A2 examination entry of 79 at GCE.
6. To achieve an average points score of per A2 examination of 78.
7. To generate income from the hiring of facilities only of £14,000 per year and to provide community support to 8 local events per year. This is a continuing revised target.
8. To achieve an overall ISI2 Inspection Report of satisfactory or above.
9. To design and implement policies in accordance with Children Act 2004.
10. To identify options to develop the 14 – 19 curriculum.

FOREWORD TO THE ACCOUNTS

Introduction

1. These accounts have been prepared on a historical cost basis as modified by the revaluation of fixed assets in accordance with an Accounts Direction given by the Treasury in pursuance of section 7 of the Government Resources and Accounts Act 2000.

History

2. The Duke of York's Royal Military School was founded in 1803. It was established as an Agency of the Ministry of Defence on 1 April 1992. In September 1994 the School first admitted girls to the Dover site.

Principal Activities

3. The Duke of York's Royal Military School is an independent boarding school for the children of serving and retired Service personnel. The principal aims of the School are to:-
 - (a) Provide a high standard of secondary education and a full range of extra-curricular sports and activities within a stable boarding environment.
 - (b) Reduce progressively relative per capita costs.
4. The number of pupils at the beginning of the academic year 2006-2007 was 489.

Financial Review

5. A review of performance against other key targets can be found in the Annual Report. The net cost to the Department amounted to £8.44 million. Net liabilities at 31 March 2007 were £151K.

Management Board

6. The School's governing body is Her Majesty's Board of Commissioners who are responsible to the Secretary of State for Defence. The composition of the Board during the year was as follows:

Chairman: Major-General A L Meier CB OBE
The Chaplain General
Air Vice-Marshal M R Jackson CB FRAeS
Rear Admiral J A Trewby CB MA CEng FIEE
Major-General R W M McAfee CB
Major-General D Farrar-Hockley CBE MC
Professor M Wright LL.M CCIPD CFim FRSA
Mr R A Perrin MA
Dr L Naylor
Dr I C Craig
Brigadier M Nugent CBE
Mrs R McCarthy BA
Brigadier D Ralls CBE DFC DL
Dr M Guzkowska
Miss C Cawston (appointed Jan 07)
Dr G Soar (appointed Jan 07)

The permanent Agency Chief Executive was appointed on 1 September 1999 through fair and open competition in accordance with Civil Service Rules. The appointment was initially five years and could have been terminated in accordance with the Civil Service Management Code. It was extended for a further five years on 1 Sept 2004.

The Board members received no remuneration for their service (see Remuneration Report).

The Senior Management Team (SMT) of the School comprises:-

J A Cummings Headmaster and Chief Executive

Appointed in September 1999 in accordance with a Civil Service Commissioners open recruitment directive. The appointment was extended for a further five years on 1 Sept 2004.

A K Bisby Senior Deputy Head

Appointed in February 1986 as Deputy Head (Curriculum) and as Senior Deputy Head in September 1999.

T R Porter Deputy Head (Pastoral)

Appointed in January 2001 through open competition by a school recruitment panel.

R Say Bursar and Clerk to HM Commissioners

Appointed in July 1998 in accordance with a Civil Service Commissioners open recruitment directive.

J H English Director of Studies

Appointed in February 2001 by a school recruitment panel as an internal appointment.

B Birchley Senior Teacher

Appointed in September 2003 through open competition by a school recruitment panel.

Information regarding the remuneration of the SMT can be found in the Remuneration Report.

Creditor Payment Policy

7. The School's policy is to aim to pay creditors within 30 days of receipt of goods and services or the presentation of a valid invoice or works certificate, whichever is the later. The School's creditors are paid either locally from a Departmental imprest account or by the Defence Bills Agency. In 2006-07 the percentage of creditors paid locally within 30 days was 96.3%. The percentage of creditors paid nationally within 30 days by the Defence Bills Agency was 99.9%.

In November 1998, the Late Payment of Commercial Debt (Interest) Act came into force, providing small businesses (and all public sector bodies) with the opportunity to claim interest on payments that are more than 30 days overdue. Amended legislation (the Late Payment of Commercial Debts Regulations 2002) came into force on 7 August 2002 providing all businesses, irrespective of size, with the right to claim statutory interest for the late payment of commercial debts. No such claims were received during the reporting year by either the School or the Defence Bills Agency.

Future Developments

8. An Upper 6th Form House was due for completion in July 2004 as Phase 1 of an overall upgrade programme for all boarding accommodation. This, and a follow-on refurbishment programme, was cancelled when MOD funding was withdrawn. A modernisation programme for all residential boarding accommodation is currently under consideration but, as yet, remains unfunded.

Audit

9. The accounts have been audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000. The notional charges to the Operating Cost Statement for external audit services were £26.5k. No non-audit services were provided. Internal audit services are provided by the MOD Directorate of Internal Audit.

Statement of Disclosure to Auditors

10. So far as I as Accounting Officer am aware there is no relevant audit information of which the school's auditors are unaware and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the school's auditors are aware of that information.



J A Cummings
Headmaster and Chief Executive
20 June 2007

STATEMENT OF SCHOOL'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under Section 7 (2) of the Government Resources and Accounts Act 2000 the Treasury have directed the Duke of York's Royal Military School to prepare a statement of accounts for each financial year in the form of and on the basis set out in an Accounts Direction for 2006/07 dated 19 December 2006. The accounts are prepared on an accruals basis and must give a true and fair view of the School's state of affairs at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the School is required to:

- Observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the School will continue in operation.

The Departmental Accounting Officer for the Ministry of Defence has appointed the Chief Executive of the Duke of York's Royal Military School as the Accounting Officer for the School. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers Memorandum issued by the Treasury and published in "Government Accounting".

DUKE OF YORK'S ROYAL MILITARY SCHOOL ANNUAL STATEMENT ON INTERNAL CONTROL

1. Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Duke of York's Royal Military School's policies, aims and objectives. The Permanent Under Secretary (PUS), as the Department's Principal Accounting Officer, is responsible for the overall organisation, management and staffing of the Department as a whole. I am accountable directly to the PUS for safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. In exercising this responsibility, I provide regular reports to the Adjutant General as the Agency owner.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The Agency's system of internal control forms part of the overall MOD internal control system and is based on an ongoing process designed to identify and prioritise the risks to the achievement of the DOYRMS's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control continued to be improved during the year and was embedded in the DOYRMS at 31 March 2007 and at the date of approval of the annual report and accounts and accords with Treasury guidance.

3. Capacity to handle risk

A central component of the way in which the DOYRMS gives leadership to the risk management process is the risk management strategy. The risk strategy:

- Sets out the DOYRMS's attitude to risk;
- Defines the structures for the management and ownership of risk;
- Specifies how new activities are assessed for risk and incorporated into the risk management processes; and
- Defines the way in which the risk register and risk evaluation processes are used.

The Senior Management Team (SMT) have attended external training courses on the determination, monitoring and control of risk. The SMT meet weekly to review and discuss risk management policies.

4. The risk and control framework

The DOYRMS has established the following processes to identify, evaluate and control risk:

- The Board of Commissioners meet termly to consider the plans and strategic direction of the School with input from the Finance and General Purposes and Curriculum and Pastoral Committees;
- The Senior Management Team report regularly on the steps they are taking to identify and manage risks in their individual areas of responsibility, including progress reports on key projects and in year financial reporting;
- The School's risk register is reviewed and updated regularly through the weekly management meetings and is presented to the Board to review and consider;
- Risk ranking is implemented using prioritisation methodology and monitored against key performance and risk indicators;

- Regular reviews by the Finance Committee of periodic and annual financial reports which indicate financial performance against budgets and forecasts. The School has a comprehensive budgeting system with an annual budget which is agreed as part of the MOD's resource allocation process; and
- Weekly meetings of the Senior Management Team to review, assess and allocate the risks; implement controls to detect, mitigate and monitor the risks; and to ensure appropriate controls are embedded in the system.

5. Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the DOYRMS who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

The DOYRMS is subject to audit by the MOD Directorate of Internal Audit (DIA), which operates to standards defined in the Government Internal Audit Manual. The work of the internal auditors is informed by an analysis of the risks to which the department as a whole is exposed, and annual audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Defence Audit Committee and approved by the Permanent Under-Secretary of State. Given the small size of the Agency in relation to the Department, it follows that the Agency's system of internal control is not separately examined by the DIA every year. However, an Adjutant General Business Assurance Team and the DIA provided a financial audit in FY 06/07.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and a plan to address weaknesses and ensure continuous improvement of the system is in place. This is carried out through a review of the significant risks and controls in place to manage or control that risk at the termly Board meetings.

6. Issues and Concerns

As Accounting Officer, I have included as significant risk issues in my Risk Register:-

- a. Lack of significant capital investment in the school which is of concern to external inspecting agencies as well as being detrimental to recruiting and retention.
- b. Lack of capital investment and the increase in fees are having a double negative effect.
- c. Changes to the funding and delivery of estates maintenance through the introduction of Prime Contracting and changes to the delivery of our contracted catering and cleaning services are impacting on the way the school is supported.

These issues raise concerns for the future and may impact in DOYRMS continuing to achieve high standards of excellence in the provision of education to Service children.

7. Other Issues of Interest

DOYRMS ceased to be a Defence Agency with a Chief Executive as at 31 Mar 07. In the School Charter, effective from 1 April 07, the appointment of Headmaster has changed to Headteacher. Mr C Johnson has been appointed Headteacher and Head of Establishment from 1 Sept 07



J A Cummings
Headmaster and Chief Executive
20 June 2007

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Duke of York's Royal Military School for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and Auditor

The DOYRMS and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and that part of the Remuneration Report in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In addition, I report to you if the DOYRMS has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the DOYRMS's compliance with HM Treasury's guidance and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the DOYRMS and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the DOYRMS's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration report to be audited.

Opinions

Audit Opinion

In my opinion:

- The financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the DOYRMS's affairs as at 31 March 2007 and of the net operating cost, total recognised gains and losses and cash flows for the year then ended;
- The financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- The information given within the Annual Report is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.



John Bourn
Comptroller and Auditor General

25 June 2007

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

DUKE OF YORK'S ROYAL MILITARY SCHOOL
OPERATING COST STATEMENT

for the year ended 31 March 2007

	Notes	2006/07 £000	2005/06 £000
Operating Costs			
Staff Costs	2(b)	4,220	4,095
Supplies and Services consumed	3	837	722
Accommodation Costs	4	4,274	1,901
Other Administration Costs	5	269	281
Interest Charge on Capital	1(f)	(6)	815
		<hr/>	<hr/>
Gross Operating Cost		9,594	7,814
Operating Income			
Income from non-Departmental Customers	6	(1,154)	(1,069)
		<hr/>	<hr/>
		(1,154)	(1,069)
		<hr/>	<hr/>
Net Operating Cost		<u>8,440</u>	<u>6,745</u>

All results arose from continuing operations.

STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2007

	Notes	2006/07 £000	2005/06 £000
Unrealised revaluation of fixed assets	13	Nil	(328)
Gains recognised in the year		<hr/>	<hr/>
		Nil	(328)
		<hr/>	<hr/>

The notes on pages 22 to 29 form part of these accounts.

DUKE OF YORK'S ROYAL MILITARY SCHOOL

BALANCE SHEET

as at 31 March 2007

	Notes	31 March 2007		31 March 2006	
		£000	£000	£000	£000
Fixed Assets					
Tangible fixed assets	9		-		23,248
Current Assets					
Debtors and Prepayments	10		126		87
Current Liabilities					
Creditors: amounts falling due within one year	11		(266)		(129)
			(140)		(42)
Total Assets Less Net Current Liabilities			<u>(140)</u>		<u>23,206</u>
Provisions for Liabilities and Charges					
Early Retirement Scheme	12		(11)		(11)
Net Assets			<u>(151)</u>		<u>23,195</u>
Taxpayers' Equity					
Revaluation Reserve	13		-		6,669
General Fund	14		(151)		16,526
			<u>(151)</u>		<u>23,195</u>



J A Cummings
Headmaster and Chief Executive
20 June 2007

The notes on pages 22 to 29 form part of these accounts.

DUKE OF YORK'S ROYAL MILITARY SCHOOL

CASH FLOW STATEMENT

for the year ended 31 March 2007

	Notes	2006/07		2005/06	
		£000	£000	£000	£000
Net Cash Outflow from Operating Activities	8		4,782		5,262
Capital Expenditure					
Payments to acquire tangible fixed assets	9	-		29	
Net Cash Outflow from Capital Expenditure			-		29
Net Cash Outflow before Financing			4,782		5,291
Financing					
Payments on Defence Resource Accounts			(5,936)		(6,360)
Receipts from non Departmental customers	6		1,154		1,069
Net Cash Inflow from Financing			(4,782)		(5,291)
Increase/Decrease in Cash			Nil		Nil

The notes on pages 22 to 29 form part of these accounts.

NOTES TO THE ACCOUNTS

for the year ended 31 March 2007

1. Accounting Policies

(a) Basis of Accounting

The accounts for the Duke of York's Royal Military School have been prepared in accordance with the Resource Accounting Manual and the Accounts Direction issued by HM Treasury. These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

(b) Income

Income comprises the invoiced value of transactions (excluding Value Added Tax) receivable during the year for goods and services supplied to the Private Sector, the wider Public Sector and other Government Departments. No value is attributed in the accounts to services provided to the Department.

(c) Funding

The funding of the School by the Department is shown in the Cash Flow Statement. The School's balance sheet does not include a cash balance because it is funded monthly from a Departmental account maintained by the Paymaster General.

(d) Fixed Asset Valuation

(i) Valuation

A revaluation of the land and buildings is carried out every five years by the Valuation Office, Land Services Division of the Department in accordance with the statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. In order to meet HM Treasury's requirement for Current Cost Accounting, fixed assets are revalued in the years between professional valuations using indices produced by the MOD Corporate Financial Controller.

(ii) Impairment in the value of assets

An impairment occurs where the recoverable amount of an asset is lower than its carrying amount. Downward revaluations due solely to fluctuations in market value will not be charged to the operating cost statement but instead written-off against the revaluation reserve until the carrying value reaches the level of depreciated historical cost. Downward revaluations below this should be recognised in the operating cost statement. A reversal of an impairment loss should be recognised in the operating cost statement to the extent that the original impairment loss (adjusted for subsequent depreciation) was recognised in the operating cost statement.

(iii) Capitalisation

Assets acquired are capitalised where they have a value exceeding the capitalisation threshold, currently £10,000, and an estimated useful life of two years or more.

(e) Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land and fixed assets under construction, at rates calculated to write-off the carrying value of each asset on a straight line basis over the expected useful line from the date of acquisition, as follows:

Estimated Useful Life in Years

Buildings	Up to 40
Plant, Machinery and Vehicles	Up to 15
IT and Communications	Up to 5

(f) *Notional Charges and Non-Cash Costs*

- (i) So as to provide a complete picture of the costs associated with the Duke of York's Royal Military School the Operating Cost Statement includes notional charges for interest on capital and non-cash costs for central administration as advised by the Department's central accounting policy staff and the Treasury, under the appropriate headings. These figures are separately disclosed in the accounts.
- (ii) Interest on Capital. A notional charge for interest on capital is included in the Operating Cost Statement. This is calculated at 3.5% of the average net book value of net assets or net liabilities on a monthly basis.
- (iii) Audit Fee. The School is not charged an audit fee by the National Audit Office. The audit fee represents the notional charge to the Operating Cost Statement based on the cost of the services provided.
- (iv) Departmental Overhead Charges. Non-cash costs are included in the Operating Cost Statement for charges in respect of services provided from other areas of the Department. The amounts so charged are calculated to reflect the full cost of providing these services to the School. The main services for which the charges are made are payment of bills, internal audit, VAT accounting and personnel management.

(g) *Value Added Tax*

The School is not separately registered for Value Added Tax (VAT) as VAT is accounted for centrally by the Ministry of Defence (MOD). Figures in the accounts in the operating cost statement and the balance sheet are shown exclusive of VAT for certain contracted-out services where this is recoverable by the MOD from HM Customs and Excise.

(h) *Provision for liabilities and charges*

Provisions for liabilities and charges have been established under the criteria of FRS 12 and are based on realistic and prudent estimates of the expenditure required to settle future legal and constructive obligations that exist at the Balance Sheet date. Provisions are charged to the Operating Cost Statement. All long term provisions are discounted to current prices by the use of HM Treasury's Discount Rate of 2.2%. The discount is unwound over the remaining life of the provision and is shown as an interest charge in the Operating Cost Statement.

2. Staff Costs and Numbers

(a) Staff Numbers

The average number of full-time equivalent employees during the year was as follows:

	2006/07	2005/06
Non Industrial	41	39
Industrial	17	17
Teachers	57	57
Agency/Casual Staff	5	5
	<hr/>	<hr/>
	120	118
	<hr/>	<hr/>

(b) Staff Costs

	2006/07	2005/06
	£000	£000
Wages and Salaries	3,497	3,409
Social Security	283	266
Pension Costs	440	420
	<hr/>	<hr/>
	4,220	4,095
	<hr/>	<hr/>

Wages and salaries include gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowance and any other allowance to the extent that it is subject to UK taxation.

3. Supplies and Services Consumed

	2006/07	2005/06
	£000	£000
External Stores and Services	302	219
Departmental Stores and Services	66	56
Civilian and Military Management Costs	112	117
Departmental HQ Costs	135	138
Miscellaneous Educational Expenditure	222	192
	<u>837</u>	<u>722</u>

4. Accommodation Costs

	2006/07	2005/06
	£000	£000
Accommodation	70	208
Laundry & Clothing Services	25	23
Cleaning & Catering Contracts	603	425
Heat & Light	355	346
Water & Sewage	86	124
Messing	262	307
Works and Maintenance, including fees	880	1,211
Fixed Asset Write On	-	(164)
Depreciation on Buildings	-	1,008
Communicated Costs from Fixed Asset Procession Centre	1,867	-
Impairment on Buildings	-	(1,697)
Council Tax	126	110
	<u>4,274</u>	<u>1,901</u>

5. Other Administration Costs

	2006/07	2005/06
	£000	£000
PR and Marketing	23	26
Subsistence	18	20
Postal Expenditure	9	8
Telecommunication Costs	88	85
Subscriptions	15	14
Miscellaneous Overheads	4	8
Early Retirement Provision	1	2
Advertising Costs	15	20
Depreciation on other Fixed Assets	-	41
Communicated Costs from Fixed Asset Procession Centre	41	-
Audit Fee	26	25
Bad Debts written-off	1	-
Training	28	32
	<u>269</u>	<u>281</u>

6. Income

	2006/07	2005/06
	£000	£000
(1) Non-Departmental Customers		
Rents and letting of Facilities	141	147
Boarding School Fees	930	842
Miscellaneous Income	83	80
	<u>1,154</u>	<u>1,069</u>

All income is disclosed as Appropriations-in-Aid in the Defence Resource Account.

7. Notional Charges and Non-Cash Costs

	£000	2006/07	£000	2005/06
		£000		£000
Supplies and Services Consumed				
Civilian and Military Management Costs	112		117	
Departmental Overhead Charge	135		138	
Chaplains	2		3	
Departmental Vehicles	44		42	
Security Costs	126		-	
		<u>419</u>		<u>300</u>
Accommodation Costs				
Messing	128		307	
Water and Sewage	86		122	
Works Maintenance	790		989	
Council Tax	123		-	
		<u>1,127</u>		<u>1,418</u>
Other Administration Expenses				
Telecommunication Costs	84		77	
Audit Fee	26		25	
Unwinding of Discount on Provision	1		2	
		<u>111</u>		<u>104</u>
		<u>1,657</u>		<u>1,822</u>

8. Reconciliation of Net Operating Cost to Net Cash Outflow from Operating Activities

	£000	2006/07 £000	£000	2005/06 £000
Net Operating Cost		8,440		6,745
Adjustments for items not involving the movement of funds:				
Depreciation	-		1,048	
Communicated Costs from Fixed Asset Processing Centre	1,909		-	
Impairment Buildings	-		(1,697)	
Interest Charge on Capital	(6)		815	
Fixed Asset Write On	-		(164)	
Impairment IT/Comms	-		4	
Notional Charges and Non-Cash Costs	1,657		1,822	
		<u>(3,560)</u>		<u>(1,828)</u>
Movements in net current assets:				
Increase/(Decrease) in Debtors		39		23
(Increase)/Decrease in Creditors		(137)		322
Net Cash Outflow from Operating Activities		<u>4,782</u>		<u>5,262</u>

9. Fixed Assets

	L & B Dwelling £000	L & B Non Dwelling £000	IT and Comms £000	Plant and Machinery £000	Total £000
Cost					
At 1 April 2006	19,970	6,446	24	250	26,690
Adjustment Prior to Transfer		(190)			(190)
Transfers	(19,970)	(6,256)	(24)	(250)	(26,500)
At 31 March 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciation					
At 1 April 2006	1,473	1,845	14	110	3,442
Adjustment Prior to Transfer		(14)			(14)
Transfers	(1,473)	(1,831)	(14)	(110)	(3,428)
At 31 March 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value					
At 1 April 2006	18,497	4,601	10	140	23,248
At 31 March 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

On 1 April 2006 the Ministry of Defence transferred responsibility for accounting for fixed assets from the DOYRMS to other parts of the Department. Where the Agency retains the risks and rewards of ownership of these assets they continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21. In all other cases the costs of the use of these assets are communicated to the DOYRMS by the asset owners and charged to the operating cost statement.

10. Debtors

	31 March 2007 £000	31 March 2006 £000
Sundry Debtors	65	26
Prepayments	61	61
	<hr/>	<hr/>
	126	87
	<hr/> <hr/>	<hr/> <hr/>

11. Creditors – amounts falling due within one year

	31 March 2007 £000	31 March 2006 £000
Sundry Creditors	18	5
Accruals	248	124
	<hr/>	<hr/>
	266	129
	<hr/> <hr/>	<hr/> <hr/>

12. Provisions for Liabilities and Charges

	Early Retirement Scheme £000
Balance at 1 April 2006	11
Provided in year	
Provision not required written back	
Provisions utilised in year	(1)
Unwinding of discount	1
Balance at 31 March 2007	
	<hr/>
	11
	<hr/> <hr/>

Early Retirement Scheme

The School meets the additional cost of benefits beyond the normal Teachers Pension Scheme in respect of employees who retire early by paying the required amounts annually to the Teachers Pension Scheme over the period between early departure and the death of the member, or his/her spouse if later. The School provides for this in full when the early retirement programme becomes binding on the School by establishing a provision for the estimated payments discounted by the Treasury Discount Rate of 2.2 per cent in real terms. The Scheme was reviewed in year and adjusted to reflect the actual number to be granted early retirement.

13. Revaluation Reserve

	31 March 2007 £000	31 March 2006 £000
Revaluation Reserve at 1 April	6,669	13,926
In Year Revaluation	-	(328)
Transfer to General Fund of Realised Element	-	(6,929)
Transfer (Fixed Assets)	(6,994)	-
Transfer from General Fund	325	-
	<hr/>	<hr/>
Revaluation Reserve at 31 March	Nil	6,669
	<hr/> <hr/>	<hr/> <hr/>

14. General Fund

	31 March 2007 £000	31 March 2006 £000
General Fund at 1 April	16,526	8,415
Net Voted Expenditure	4,782	5,291
Transfer from Revaluation Reserve of Realised Element	-	6,929
Adjustment Prior to Fixed Asset Transfer	(176)	-
Transfer (Fixed Assets)	(16,078)	-
Transfer to Revaluation Reserve	(325)	-
Notional Charges, and Interest on Capital	3,560	2,636
	<hr/>	<hr/>
Operating Costs	8,289	(8,440)
	23,271	(6,745)
	<hr/>	<hr/>
General Fund at 31 March	(151)	16,526
	<hr/> <hr/>	<hr/> <hr/>

15. Reconciliation of Movements in Government Funds

	31 March 2007 £000	31 March 2006 £000
Government Funds at 1 April	23,195	22,341
Movement on General Fund	(16,677)	8,111
Movement on Revaluation Reserve	(6,669)	(7,257)
	<hr/>	<hr/>
Government Funds at 31 March	(151)	23,195
	<hr/> <hr/>	<hr/> <hr/>

16. Reconciliation of Operating Cost to Operating Cash Flows

	2006/07 £000	2005/06 £000
Net Operating Cost	8,440	6,745
Adjustment for Non-Cash Transactions	(3,560)	(1,828)
Increase/(Decrease) in Debtors	39	23
(Increase)/Decrease in Creditors	(137)	322
	<hr/>	<hr/>
Net Cash Outflow from Operating Activities	4,782	5,262
	<hr/> <hr/>	<hr/> <hr/>

17. Contingent Liabilities

The Agency had no contingent liabilities at 31 March 2007.

18. Leasing Obligations

The Duke of York's Royal Military School has the following annual commitments under non-cancellable operating leases which expire:

	31 March 2007 £000	31 March 2006 £000
Within 1 year	12	9
Two to five years	46	-
	<hr/>	<hr/>
Government Funds at 31 March	<u>58</u>	<u>9</u>

19. Capital Commitments

There were no capital commitments at the balance sheet date, contracted or otherwise.

20. Post Balance Sheet Events

There were no post balance sheet events. The Financial Statements were authorised to be issued by the Chief Executive on 25 June 2007

21. Related Party Transactions

The Duke of York's Royal Military School is an Executive Agency of the Ministry of Defence, which is regarded as a related party. During the year the School has had various material transactions with the Department, including a number of notional charges which are explained in Note 1(f) to the accounts. During the year none of the Board members, members of the key management staff or other related parties have undertaken any material transactions with the School.

22. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government agencies are financed, the School is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The School has no powers to borrow or invest surplus funds, holds no cash of its own and has no transactions in foreign currencies. Accordingly, it has no interest rate or exchange rate risk. Its net expenditure requirements are financed by resources voted annually by Parliament as are its capital expenditure requirements, so it has no liquidity risk either.